

### ***What are potential revenue sources?***

In reviewing and recommending options for revenue sources to maintain the level of service provided by the City, it is important to keep several goals in mind for those revenue sources that would need to be authorized by the voters:

- Does the voter receive a tangible benefit in exchange for a positive vote?
- Does the revenue source have a built-in constituent group that would support a campaign?
- Does the revenue source achieve a long term goal for the city and or region?
- Is the cost to the voter a deterrent?

This document will serve to provide an overview of several of the revenue sources that have been discussed and analyze the questions above in order to provide a recommendation moving forward.

### ***.2/10<sup>th</sup> PFD Sales Tax***

The Greater Wenatchee Regional Events Center Public Facilities District is a municipal corporation with independent taxing authority, formed according to RCW 35.57. The GWPFD was formed to own and operate the Town Toyota Center, however the GWPFD is a regionally formed district that can own and operate other regional centers. The GWPFD has the ability to levy charges or fees for admissions and parking, as well as levy a .2/10<sup>th</sup> of a percent sales tax in the district in which it is formed. The Interlocal Agreement that formed the GWPFD specifies that before it seeks voter approval for the sales tax, the GWPFD needs to obtain approval from its members. The GWPFD is formed by nine members: Chelan County, Douglas County, City of Wenatchee, City of East Wenatchee, City of Rock Island, Town of Waterville, City of Entiat, City of Cashmere and City of Chelan.

In the PFD district, the .2/10<sup>th</sup> of a percent sales tax would generate approximately \$3 million. This amount has been recently modified due to the latest sales tax receipts. Original estimates had it at \$3.6 million. This \$3 million would be sufficient to cover 20 year or 30 year debt service on the Town Toyota Center, and coupled with the sales tax rebate, which generates approximately \$600,000 annually, it would allow the GWPFD to build a capital reserve that will be critical for maintaining the building into the future. This sales tax measure can be put forward by the PFD at any election with the prior approval of their members, however the Primary and General elections would be at a lesser cost. For the November General Election a Resolution would need to be forward to the County by August 16<sup>th</sup> of this year.

- Does the voter receive a tangible benefit in exchange for a positive vote?
  - ✓ Yes - Not only does the voter receive the assurance that the Town Toyota Center will be funded and maintained into the future, the voter funds a regional organization that may be able to do other projects in the future. In addition, City of Wenatchee voters are assured that the programs discussed in cuts are maintained, as the city would no longer have to carry a budget line-item for the TTC debt service of approximately \$2.8 million.
- Does the revenue source have a built-in constituent group that would support a campaign?
  - ✓ Yes – The TTC is home to local hockey, figure skating and curling groups that would be a built in constituent group, as well as the local tourism community.
- Does the revenue source achieve a long term goal for the city and or region?

- ✓ Yes – The city would be back to funding basic services and the region would have an adequately funded independent entity that can do other projects in the region in the future.
- Is the cost to the voter a deterrent?
  - ✓ No – in comparison to the other options, this option may seem the most reasonable. To a resident of the PFD district, this tax would be \$30 annually, however, a 2009 Dean Runyon travel study indicated that Chelan and Douglas Counties received \$377 million in retail sales taxes generated by tourists. The .2/10<sup>th</sup> of a percent is expected to generate \$3 million. .2/10<sup>th</sup> of \$377 million is \$775,000, which would suggest that tourists generate 25% of the retail sales in the two county area which would lower the resident cost to \$22.50.

### **Levy Lid-Lift**

Taxing jurisdictions with a property tax rate that is less than their statutory maximum rate may ask the voters to “lift” the levy lid by increasing the tax rate to some amount equal to or less than their statutory maximum rate. There are two different approaches to, or options for, a levy lid lift, with each having different provisions and advantages.

#### Option 1: “Original flavor” lid lift (or “single-year” lift or “one-year” lift or “basic” lift)

The Original Lid Lift may be done for any purpose, and the purpose may be included in the ballot title, but need not be. *RCW 84.55.050(4)(c)*. It can be for any amount of time, unless the proceeds will be used for debt service on bonds, in which case the maximum time period is nine years. *RCW 84.55.050(4)(b) and (b)*. A permanent lid lift means you can use the funds for ongoing operating expenditures without going back to the voters for another lid lift. To make the lift permanent requires language in the ballot title expressly stating it is permanent or that future levies will increase as allowed by chapter 84.55 RCW. *RCW 84.55.050(4)(a)*. If the lift is not made permanent, the base for future levies will, at the end of the time period specified in the ballot title, revert to what the dollar amount of the levy would have been if no lift had ever been done. *RCW 84.55.050(5)*. After the initial “lift” in the first year, the jurisdiction’s levy in future years is subject to the 1% limit in chapter 84.55 RCW. This is the maximum amount it can increase without returning to the voters for another lid lift. The City can propose a levy lid lift at any Special or General election. It would pass with a simple majority (50% plus 1).

#### Option 2: Multiple/multi-year lid lift

The multi-year lid lift may be done for any purpose, but the purpose(s) must be stated in the title of the ballot measure. *RCW 84.55.050(2)(a)*. The lid may be “bumped up” each year for up to six years. *RCW 84.55.050(2)(a)*. At the end of the specified period, the levy in the final period may be designated as the base amount for the calculation of all future levy increases (made permanent) if expressly stated in the ballot title. The levy in future years will then be subject to the 1% limit in chapter 84.55 RCW. *RCW 84.55.050(4)(a)*. If the lift is not made permanent, at the end of the time period specified in the ballot title, the base for future levies will revert to what the dollar amount of the levy would have been if no lift had ever been done. The lift for the first year must state the new tax rate for that year. *RCW 84.55.050(2)(a)*. For the ensuing years, the lift may be a dollar amount, a percentage increase amount tied to an index such as the CPI, or a percentage amount set by some other method. The City can propose a levy lid lift at any Primary or General election. It would pass with a simple majority (50% plus 1).

Levy lid lifts have become a necessity for taxing districts across the state that rely on property tax, the 1% statutory limit to property tax increases has not kept up with inflation. The City of Wenatchee currently has capacity for a “levy lid lift.” The aggregate regular levy rates of senior taxing districts (counties and cities) and junior taxing districts (fire districts, metropolitan park

districts, cemetery districts, library districts, park and recreation district, etc.) may not exceed \$5.90 per thousand dollars AV. Currently, according to the Chelan County Assessor's office, the aggregate rate is \$3.89 (this includes the City's \$2.34 (with a \$3.10 statutory maximum), the Regional Library District's .39 and the County's current expense levy of \$1.15) and therefore there is a \$2.01 capacity. This would need to include any future junior districts (please see discussion following about Metropolitan Parks District) and a future Regional Fire Authority. If the \$5.90 is exceeded, there is a proration process that limits the Junior districts by an established order (see information that follows about proration). If the City decided to propose a .50/1,000 levy lid lift, it would generate \$1,184,055 based on 2011 values and it would equate to an additional \$125 annually for a home with the value of \$250,000.

- Does the voter receive a tangible benefit in exchange for a positive vote?
  - ✓ Yes – The levy lid lift would generate enough funds to restore some of the essential services desired (based on the cuts presented in the 2012 budget scenarios June 3, 2011) i.e. recreation, museum services, street maintenance or fire service and staffing for the Maple Street Fire station.
- Does the revenue source have a built-in constituent group that would support a campaign?
  - ✓ Yes – The users of city services would be looking to have those services restored
- Does the revenue source achieve a long term goal for the city and or region?
  - ✓ Yes and No – The revenue source would restore basic services but it would also have the City paying the cost of a regional facility (Town Toyota Center) indefinitely. An evaluation would need to be made about the desire to have a city focused or regionally focused solution to this issue.
- Is the cost to the voter a deterrent?
  - ✓ Yes – City of Wenatchee residents have been resistant to property tax increases and a .50/1,000 levy lid lift would result in an increase in property taxes to the residents of the City. For the owner of a \$250,000 house it would mean \$125 in additional annual taxes. The Trust for Public Lands estimates that \$50 per year is the break point for consideration of additional property taxes.

<b><i>Transportation Benefit District</i></b>
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Cities, along with counties, may form transportation benefit districts to acquire, construct, improve, provide, and fund transportation improvements in the district that is consistent with any existing state, regional, and local transportation plans and necessitated by existing or reasonably foreseeable congestion levels (RCW 36.73). The area may include other cities and counties, as well as port and transit districts through interlocal agreements. Any city passing on ordinance to form a transportation benefit district must also identify revenue options for financing improvements in the district. A district that has coterminous boundaries with a city may levy a \$20 per vehicle license fee or impose transportation impact fees on commercial or industrial buildings, both without voter approval. A credit must be provided for any transportation impact fee on commercial or industrial buildings that the city has already imposed. Similarly, any district that imposes a fee that, in combination with another district's fee, totals more than \$20, must provide a credit for the previously levied fee. Voter-approved revenue options include a license fee of up to \$100 per vehicle and a 0.2 percent sales tax. Like many other special districts, transportation benefit districts may levy a one-year O&M levy under RCW 84.52.052 and do an excess levy for capital purposes under RCW 85.52.056. The funds must be spent on transportation improvements as set forth in the district's plan. In the City's budget scenarios, a \$20 car tab fee was proposed that would generate approximately \$550,000 annually. The City

could also take the .2/10<sup>th</sup> of a percent sales tax to the voters and this would generate approximately \$1.57 million. Of consideration, however, is the regional desire to fund larger regional transportation needs, so the City would need to evaluate how a city imposition of either a car tab fee or sales tax would impact the regional effort. Jeff Wilkens, Director of the Wenatchee Valley Transportation Council provided the following:

*“It was brought to my attention that the city council may consider establishing a Transportation Benefit District (TBD) with a \$20 car tab fee increase to raise additional revenue for street maintenance. I was asked to provide a response about any impacts this could have from a regional perspective. My comments are my own and do not reflect an official position on behalf of the WVTC Executive Council.*

*My view is that while the TBD is a perfectly good tool for addressing an individual city or county’s street funding needs, there is a significant opportunity cost if any one jurisdiction in our valley proceeds independently. In other words, there are other ways to utilize a TBD for improving transportation on a larger scale, cooperatively as a metropolitan region, that could be lost if the city proceeds independently with a modest car tab fee increase at this time. This local-option revenue tool is one of the only mechanisms available to fund pressing transportation needs that far exceed our current fiscal capacity. One option WVTC continues to evaluate is a Regional TBD encompassing the entire metropolitan urbanized area. Examples of potential uses of new revenue from a Regional TBD include:*

- *Moving forward with construction of the Confluence Parkway and/or associated improvements for safety and congestion relief on North Wenatchee Avenue, as identified in the North Wenatchee Transportation Master Plan;*
- *“State of Good Repair” funding to reduce the backlog of basic preservation and maintenance for city and county arterial and collector streets;*
- *Restoring and potentially expanding Link Transit bus routes and route frequencies; and*
- *Increasing the availability of matching funds to better leverage state and federal grants.*

*These examples don’t represent the only transportation priorities identified by WVTC – other regional projects in need of funding include construction of the US 2 Cascade Interchange and the widening of Sunset Highway through East Wenatchee, both of which are leading priorities in our region for WSDOT.*

*The legislature has been very clear about their expectation that local governments make use of local option taxes before seeking additional state funding for transportation. Establishing a TBD collectively to advance our regional transportation priorities would have the added benefit of improving our ability to work with the legislature in the future to secure funding for WSDOT’s projects on US 2 and Sunset Highway. “*

An important consideration for the City is that if the City decided to implement, the City would control and have access to the funds for the benefit of City residents versus needing to go through a regional process. The City can also provide TBD funds to a regional effort through interlocal agreement, and the City generates over 50% of the funds to be generated by a regional TBD.

- Does the voter receive a tangible benefit in exchange for a positive vote?

- ✓ Yes, in the creation of the Transportation Benefit District, congestion relief projects would be identified based on a public process and the public would see those projects get completed.
- Does the revenue source have a built-in constituent group that would support a campaign?
  - ✓ No, if the car tab route is pursued, it may have a negative perception by the community based on prior initiatives. If the sales tax route is pursued, it may be supported after the citizenry sees a decline in the condition of city streets, or the inability to recruit a business due to a low level of service standard. In the end, this would be a City Council policy issue to pursue a revenue source that may be somewhat controversial for a dedicated purpose that is very needed in the City.
- Does the revenue source achieve a long term goal for the city and or region?
  - ✓ Yes, many of the sources of revenue for streets have been declining and this would provide a dedicated source of funds for projects.
- Is the cost to the voter a deterrent?
  - ✓ No, a \$20 car tab may be deemed to be a reasonable user fee. The .2/10<sup>th</sup> of a percent sales tax, when only applied to the city of Wenatchee resident brings the cost up to \$49 per resident. If 25% of the retail sales taxes are paid by tourists, then this cost per resident comes down to \$36.30.

<b><i>Metropolitan Parks District</i></b>
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The purpose of a MPD is to provide for the management, control, improvement, maintenance, and acquisition of parks, parkways, boulevards, and recreational facilities. It can conduct forms of recreation or business beneficial for the public, or for the production of revenue for expenditure for park purposes (*RCW 35.61.130.*) A MPD may purchase, acquire and condemn lands within or without the boundaries of park district and may issue and sell warrants, short-term obligations, or general obligation bonds. A MPD may also petition for the creation of local improvement districts, may employ counsel, provide for park police officers, secretary of the board, and all necessary employees. A MPD has power to regulate, manage and control, improve, acquire, extend and maintain, open and lay out, parks, parkways, boulevards, avenues, aviation landings and playgrounds, within or without the park district. Additionally, a MPD may annex territory.

An MPD may include territory located in portions or all of one or more cities or counties, or one or more cities and counties, when created or enlarged. It can be initiated by petition of at least 15 percent of the registered property owners in the area and submitted to the county auditor of each county in which all or a portion of the proposed district would be located (*RCW 35.61.020*) or it can be initiated by a resolution of the governing body or bodies of each city and/or county which includes a portion or all of the area in the district.

Passage approving the MPD ballot measure requires approval by a majority of the voters voting. (*RCW 35.61.040*)

Two regular property tax levies available - \$0.50 cents/\$1000 assessed valuation and one of \$0.25 cents. They are considered one levy for the purposes of the levy limits in Ch.84.55 RCW, but they have different rankings in the pro-rationing statute. **Levy is permanent.**

- Does the voter receive a tangible benefit in exchange for a positive vote?

- ✓ Yes, in the creation of a Metropolitan Parks District, a new revenue source is created to support the ongoing development, construction and management of parks, trails and parks facilities.
- Does the revenue source have a built-in constituent group that would support a campaign?
  - ✓ Yes, particularly in the last 10 years, the support for parks and trails in the Wenatchee area has matured with a very strong and dedicated constituent group, as well as the Wenatchee Parks and Recreation Board
- Does the revenue source achieve a long term goal for the city and or region?
  - ✓ Yes, with every downward economic cycle, the parks and recreation uses of the city are targeted for elimination as a non-essential service. A MPD would provide a dedicated funding source that would ensure the ongoing operation of this area's recreational assets.
- Is the cost to the voter a deterrent?
  - ✓ Yes, property tax increases have been politically unpopular in this area, however with the constituent group that has developed for this issue, the ability to leverage and match the local property tax would generate substantial benefit for the region. A .50/1,000 tax in Wenatchee would cost the owner of a \$250,000 home an additional \$125 annually.

<b><i>Property Tax Prorationing</i></b>
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In evaluating additional property taxes for Wenatchee, it is important to understand what would happen if either the \$5.90 statutory limit or the one percent constitutional limit is exceeded. Essentially one or more of the levies involved are reduced according to a statutory formula. This reduction process is known as prorationing.

The county current expense levy, the county road fund levy, city general fund levies, and the state school levy are all protected from prorationing. Which levies are lowered in prorationing, by how much, and in what order depends upon whether the \$5.90 limit or the one percent limit has been exceeded. If the \$5.90 limit has been exceeded, levies are reduced or eliminated in the following order until the total tax rate is at \$5.90. Note that within each grouping, the levy rates of the districts are reduced on a pro rata basis. (RCW 84.52.010(2))

1. Parks & Recreation Districts - RCW 36.68.525 (up to \$0.60)  
 Parks & Recreation Service Areas - RCW 36.69.145 (up to \$0.60)  
 Cultural Arts, Stadiums & Convention Districts - RCW 67.38.130 (up to \$0.25)
2. Flood Control Zone Districts - RCW 86.15.160 (up to \$0.50)
3. Hospital Districts - RCW 70.44.060 (up to \$0.25)  
 Metropolitan Parks Districts - RCW 35.61.210 (up to \$0.25)  
 All other districts not otherwise mentioned
4. Metropolitan Park Districts formed on January 1, 2002 or after - RCW 35.61.210 (up to \$0.50)
5. Fire Districts - RCW 52.16.140 (up to \$0.25)  
 Fire Districts - RCW 52.16.160 (up to \$0.25)

(Note: The other 25 cents of each of these levies may be placed outside the \$5.90 limit, but they are subject to the one percent constitutional limit. See item 1 below)

Regional Fire Protection Service Authorities - RCW 52.26.140(1)(b) (up to \$0.50)  
 Regional Fire Protection Service Authorities - RCW 52.26.140(1)(c) (up to \$0.50)

6. Fire Districts - RCW 52.16.130 (remaining \$0.50)  
Regional Fire Protection Service Authorities - RCW 52.26.140(1)(a) (up to \$0.50)  
Library Districts - RCW 27.12.150 (up to \$0.50)  
Hospital Districts - RCW 70.44.060 (up to \$0.50)  
Metropolitan Parks Districts formed before January 1, 2002 - RCW 35.61.210 (up to \$0.50)

(Note that the levies of metropolitan park districts formed after January 1, 2002, are two steps lower of the prorationing ladder than that of Tacoma's, formed before that date.)

If levies are reduced to conform to the \$5.90 limit, and the total tax levy still exceeds one percent of fair market value, then reductions in other levies, which fall outside the \$5.90 limit, are made in the following order, up to the amounts in parentheses:

1. County Transit Levy (King County) - RCW 84.52.? (Ch. 551 Laws of 2009 (SB 5433)) (up to \$0.75)
2. Fire Districts - RCW 52.16.140 and RCW 84.52.125 (up to \$0.25)  
Fire Districts - RCW 52.16.160 and RCW 84.52.125 (up to \$0.25)
3. County Criminal Justice - RCW 84.52.135 (up to \$0.50)
4. Ferry Districts - RCW 36.54.130 (up to \$0.75)
5. Metropolitan Parks Districts with a population of 150,000 or more, which have voted to levy their \$0.25 levies outside the \$5.90 limit- RCW 35.61.210 and RCW 84.52.120 (up to \$0.25)
6. Conservation Futures - RCW 84.34.230 (up to \$0.0625)  
Affordable Housing - RCW 84.52.105 (up to \$0.50)  
Emergency Medical Services - RCW 84.52.069 (up to \$0.20)
7. Emergency Medical Services - RCW 84.52.069 (up to \$0.30)

The \$0.25 MPD levy listed directly above as item 1 is the same levy as that listed at level 3 in the discussion of the \$5.90 prorationing scheme. There are not two separate \$0.25 levies that a single district may make. RCW 84.52.120 allows a district with a population of 150,000 or more to ask the voters for permission to make the levy outside the \$5.90 limit, making it, of course, much less vulnerable to prorationing. If the voters approve, the legislative body may do so for a period of six years.

A group thinking of forming a metropolitan park district needs to check with its county assessor to find out what its maximum initial levy can be to see whether it makes financial sense and to try to estimate what the levy might be in the future if the levy is prorationed or is on the margin for prorationing. The state constitution requires that taxes be uniform throughout a district. If the proposed park district boundaries contain overlapping tax districts it is possible that a levy of, say, 50 cents may be possible the first few years. But, in a future year, if a fire district raises its levy by some amount, say 35 cents, the park district's levy will fall to 15 cents even if only a small portion of the fire district is in the park district and even though the assessed valuation of the fire district piece is just a small portion of the park district.